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See
D. A. STUART OIL CO., LIMITED
to

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1977 Annual Report





D.A. STUART OIL CO., LIMITED

DIRECTORS and OFFICERS

Directors

LUTHER P. BEGLEY
M. BRUCE DEANS
DANIEL GIANNINI, M.B.E.
DAVID I. JOHNSTON
CHRIS. T. LOUGHRIN
STEPHEN P. OGRYZLO, Ph.D.
JOHN C. STRADWICK, Sr.
HERIBERT WERHAHN

Honorary Directors

M. CLIFFORD DEANS
GORDON McMILLAN, Q.C.

Officers of the Company

Chairman of the Board and Chief Executive Officer
DANIEL GIANNINI, M.B.E.

President

DAVID I. JOHNSTON

Executive Vice-President and General Manager

LUTHER P. BEGLEY

Vice-President – Finance

DOUGLAS F. HASLAM

Vice-President – Manufacturing

ROBERT F. GASVODA

Treasurer and Assistant Secretary

HENRY E. PERKINS

Secretary and Assistant Treasurer

HERBERT W. SALTHOUSE

Transfer Agents and Registrars

NATIONAL TRUST COMPANY, LIMITED
21 King Street East
Toronto, Ontario, M5C 1B3
D. A. STUART OIL CO., LIMITED
2727 South Troy Street
Chicago, Illinois 60623

General Office:

2727 South Troy Street
Chicago, Illinois 60623

Head Office:

Suite 1105, 65 Queen Street West
Toronto, Ontario, Canada M5H 2M5

The Annual Meeting of Shareholders will be held in the
Library of The Royal York Hotel, Toronto, Canada, on
Friday, September 30, 1977, at 11 A.M. Toronto Time.

D. A. STUART OIL CO., LIMITED

Serving the metal working industry for over 100 years

Report of the Directors

TO THE SHAREHOLDERS:

Consolidated sales amounted to U.S.\$18,876,288 compared to U.S.\$16,070,630 for the previous year. Despite the higher sales, continued rising costs of raw materials, energy, labour and transportation affected our income in the most important market, United States.

Net earnings for the year under review amounted to U.S.\$769,484 as against U.S.\$839,238 last year, equivalent per share to \$1.69 and \$1.84 respectively.

Canadian D. A. Stuart Oil Co. Limited and D. A. Stuart Oil Co. Limited in the United Kingdom, both wholly owned subsidiaries, had record sales last year and the Canadian company also had a record profit. The earnings level in the U.K. company was the highest in recent years. Through the devaluation of the Canadian dollar and the pound sterling in relation to the United States dollar, there was a foreign exchange loss on translation of the currencies into U.S. dollars.

Your Company's 50% owned subsidiary, D. A. Stuart Oil GmbH showed an improvement to the point where a break-even year was reached.

Your Company's licensee arrangements continue to operate on a satisfactory basis.

In order to achieve a more efficient and profitable level of operation, the Company will make efforts to improve finance and management controls. It is also the intention of management to seek out an enterprise that can be acquired to broaden the activities of your Company in its traditional fields of interest. The Company has established new policies with respect to research and development which will result in greater expenditures and greater benefits in that area in future years.



During the fiscal year quarterly dividends aggregating 80 cents and extra dividends of 16.4 cents were paid per share. The dividends were paid in Canadian funds.

On January 25, 1977, Mr. Heribert Werhahn and Mr. David Johnston joined the Board of Directors of the Company to replace Mr. Herbert Salthouse and Mr. Robert Gasvoda who resigned as directors. Mr. Johnston was also appointed President of the Company and Mr. Douglas F. Haslam was appointed Vice-President, Finance.

Mr. John C. Stradwick, Sr. has indicated his intention not to stand for re-election at the next Annual Meeting and it is proposed that he be replaced by Dr. Peter H. Werhahn. The Company wishes to record its appreciation for the years of service which Mr. Stradwick has devoted to its affairs as a director of the Company and to the contribution and guidance which he offered in some of the more difficult years which are now passed.

Management is confident that during the present fiscal year results will be improved over those of last year.

The excellent cooperation of all employees and their continued loyalty is sincerely appreciated by the management and directors.

On behalf of the Board

DANIEL GIANNINI
Chairman of the Board

Toronto, Canada
July 22, 1977

DAVID I. JOHNSTON
President

D. A. STUART OIL CO., LIMITED

(Incorporated under the laws of Ontario)

Consolidated Balance

Expressed in United

ASSETS

Current Assets

	1977	1976
Cash and deposit receipts	\$ 810,152	\$ 716,389
Accounts receivable	2,786,558	2,103,524
Inventories	2,490,736	2,221,353
Drums, other containers and supplies	148,016	125,396
Advances and prepaid expenses	137,008	142,416
	<u>6,372,470</u>	<u>5,309,078</u>

Marketable Securities, at cost (quoted market value, 1977, \$12,760; 1976, \$11,604)

34,308	34,308
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Other Investments (note 2)

53,615	60,204
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Life Insurance, cash surrender value

66,113	62,889
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Fixed Assets, at cost (note 3)

Land, buildings and equipment	3,734,138	3,522,541
Less accumulated depreciation	2,207,539	2,094,655
	<u>1,526,599</u>	<u>1,427,886</u>
	<u>\$8,053,105</u>	<u>\$6,894,365</u>

Approved by the Board

D. GIANNINI, Director

D. I. JOHNSTON, Director

AUDITORS

To the Shareholders of
D. A. Stuart Oil Co., Limited

We have examined the consolidated balance sheet of D. A. Stuart Oil Co., Limited as at May 31, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada
July 8, 1977



Sheet as at May 31, 1977

tates currency

LIABILITIES

Current Liabilities

	1977	1976
Bank advances	\$ 250,000	\$ 31,985
Accounts payable and accrued liabilities	1,756,659	1,299,866
Income taxes payable	199,673	93,569
Other taxes payable	96,924	74,757
Dividend payable	86,853	93,304
Liability for returnable containers	108,359	70,714
	<u>2,498,468</u>	<u>1,664,195</u>

Deferred Income taxes

173,051	180,480
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SHAREHOLDERS' EQUITY

Capital Stock

Authorized — 800,000 common shares of no par value		
Issued — 456,256 shares	424,608	424,608

Retained Earnings (note 4)

4,956,978	4,625,082
5,381,586	5,049,690
<u>\$8,053,105</u>	<u>\$6,894,365</u>

Contingent liability (note 6)

REPORT

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.

Chartered Accountants

D. A. STUART OIL CO., LIMITED

CONSOLIDATED STATEMENT OF INCOME

Year Ended May 31, 1977

Expressed in United States currency

	1977	1976
Sales	\$18,876,288	\$16,070,630
Cost of sales	<u>14,310,920</u>	<u>12,023,397</u>
Gross margin	4,565,368	4,047,233
Royalties and other income	<u>315,209</u>	<u>341,513</u>
Income before undernoted items	<u>4,880,577</u>	<u>4,388,746</u>
Selling and administrative expenses	<u>3,259,386</u>	<u>2,773,655</u>
Loss on foreign currency	<u>79,825</u>	<u>88,182</u>
	<u>3,339,211</u>	<u>2,861,837</u>
	<u>1,541,366</u>	<u>1,526,909</u>
Allowance for share of loss of 50% owned company		26,500
Income before income taxes	<u>1,541,366</u>	<u>1,500,409</u>
Income taxes		
Current	779,311	629,545
Deferred (reduction)	<u>(7,429)</u>	<u>31,626</u>
	<u>771,882</u>	<u>661,171</u>
Net Income	<u>\$ 769,484</u>	<u>\$ 839,238</u>
Earnings per Share	<u>\$1.69</u>	<u>\$1.84</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended May 31, 1977

Expressed in United States currency

	1977	1976
Balance at Beginning of Year	\$ 4,625,082	\$ 4,170,870
Net income	<u>769,484</u>	<u>839,238</u>
	<u>5,394,566</u>	<u>5,010,108</u>
Dividends*	<u>437,588</u>	<u>385,026</u>
Balance at End of Year	<u>\$ 4,956,978</u>	<u>\$ 4,625,082</u>

* Dividends were declared in Canadian funds 1977, 96.4¢ per share and 1976, 85¢ per share.
Amounts shown above are stated in U.S. funds.

D. A. STUART OIL CO., LIMITED



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION Year Ended May 31, 1977

Expressed in United States currency

Working capital derived from	1977	1976
Operations		
Net income	\$ 769,484	\$ 839,238
Items not involving working capital		
Depreciation	138,676	138,044
Loss (gain) on disposal of fixed assets	(4,219)	519
Deferred income taxes (reduction)	(7,429)	31,626
Allowance for share of loss of 50% owned company		26,500
	<u>896,512</u>	<u>1,035,927</u>
Decrease in advances to other companies	3,136	
Sale of fixed assets	12,873	2,145
Reclassification of current income taxes payable as deferred		93,120
Decrease in investment in and advances to 50% owned company	3,453	
	<u>915,974</u>	<u>1,131,192</u>
Working capital applied to		
Dividends	437,588	385,026
Additions to fixed assets	246,043	173,142
Increase in investment in and advances to 50% owned company		10,324
Increase in advances to other company		11,980
Life insurance, cash surrender value	3,224	7,099
	<u>686,855</u>	<u>587,571</u>
Increase in working capital	229,119	543,621
Working capital at beginning of year	3,644,883	3,101,262
Working capital at end of year	<u>\$3,874,002</u>	<u>\$3,644,883</u>

D. A. STUART OIL CO., LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Year Ended May 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies Canadian D. A. Stuart Oil Co. Limited and D. A. Stuart Oil Co. Limited (English subsidiary).

(b) Basis of translation

The company operates principally in the United States and the accompanying financial statements are expressed in United States currency. Assets, liabilities, and revenues and expenses maintained in other than U.S. currency have been translated to United States dollars at the following rates of exchange:

(i) Current assets and liabilities, at exchange rates prevailing at the year end.

(ii) Fixed assets, capital stock and earnings accumulated prior to June 1, 1964 on the basis of U.S. \$1 = Canadian \$1 and U.S. \$2.80 = £1.

(iii) Income, expenses and changes in non-current assets and liabilities at average rates in effect annually during the years since June 1, 1964.

(iv) Gains or losses on translation of foreign currency are recognized during the year in the statement of income.

(c) Inventories

Raw materials are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Fixed assets

All fixed assets are recorded in the accounts at cost.

Depreciation is recorded principally on a straight-line basis to amortize the cost of depreciable fixed assets over their estimated useful life. The rates range from 2½% on buildings to 25% on certain automotive equipment.

(e) Investments

The company accounts for its 50% investment in D. A. Stuart Oil GmbH at cost less allowance for share of losses. Marketable securities are held for long term investment purposes and are carried at cost.

(f) Income taxes

The company charges income with income taxes currently payable and also with income taxes deferred by claiming certain costs for income tax purposes in excess of related costs charged to income. The accumulated total of such income tax deferments is reflected in the consolidated balance sheet as "Deferred income taxes".

2. OTHER INVESTMENTS

	1977	1976
Investment in and advances to 50% owned company		
Shares, at cost	\$ 65,495	\$ 65,495
Advances	75,949	79,402
	141,444	144,897
Allowance for share of losses of 50% owned company	98,606	98,606
	42,838	46,291
Advances to other company	10,777	13,913
	<u>\$ 53,615</u>	<u>\$ 60,204</u>

3. FIXED ASSETS

	1977		1976
	Asset value	Accumulated depreciation	Net
Land	\$ 255,202		\$ 255,202
Buildings and railway sidings	1,341,519	\$ 562,318	779,201
Factory equipment	1,705,346	1,283,191	422,155
Office and laboratory equipment	339,489	288,174	51,315
Automotive equipment	92,582	73,856	18,726
	<u>\$3,734,138</u>	<u>\$2,207,539</u>	<u>\$1,526,599</u>
			<u>\$1,427,886</u>



4. RETAINED EARNINGS

Dividends from the English subsidiary are subject to exchange control authorization, which is usually granted, and withholding taxes at time of payment.

5. OTHER STATUTORY INFORMATION

	<u>1977</u>	<u>1976</u>
Depreciation	\$ 138,676	\$ 138,044
Remuneration of directors and senior officers (as defined by The Business Corporations Act)		
Directors and officers	\$ 191,571	\$ 232,265
Other employees	197,793	96,039
	<u>\$ 389,364</u>	<u>\$ 328,304</u>

6. CONTINGENT LIABILITY

The company has provided guarantees to a maximum of \$508,900 for bank loans and long term mortgage loans of the 50% owned company, D. A. Stuart Oil GmbH. As at May 31, 1977 the loans amounted to \$454,500. Of the guarantees provided on behalf of the 50% owned company by D. A. Stuart, \$127,200 has been guaranteed to Stuart by the owner of the other 50% of the company.

7. PENSION PLAN

Current pension costs are charged to operations each year. Past service costs are being amortized over thirty years.

At May 31, 1977, based upon an actuarial valuation conducted as of April 30, 1976 the computed present value of the company obligations for unfunded past service costs approximated \$427,156 after deducting \$28,309 charged to operations for the year.

8. ANTI-INFLATION PROGRAMME

The company is subject to the mandatory guidelines under the Federal anti-inflation legislation enacted effective October 14, 1975 with respect to dividends.

FIVE-YEAR COMPARATIVE REVIEW OF OPERATIONS

	<u>Sales</u>	<u>Income before income taxes</u>	<u>Income taxes</u>	<u>Net income</u>	<u>Dividends declared</u>	<u>Income retained</u>
1977	\$18,876,288	\$1,541,366	\$771,882	\$769,484	\$437,588	\$331,896
1976	16,070,630	1,500,409	661,171	839,238	385,026	454,212
1975	16,779,499	1,808,957 (2)	915,071	893,886	391,114	502,772
1974	14,386,856	1,510,132 (2)	798,603	711,529	161,367	550,162
1973	13,263,875	904,111 (1)	579,909	324,202	92,118	232,084

(1) After reduction for extraordinary item of \$26,380 in 1973.

(2) After reduction for loss on discontinued operations of \$23,368 in 1975; \$56,588 in 1974 and gain on sale of shares of Argentinian subsidiaries of \$53,232 in 1975.

UNITED STATES AND INTERNATIONAL OPERATIONS



1

INTERNATIONAL

ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
BELGIUM, Brussels
Ets. Marcel Ponjaert S.P.R.L.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. Limited
GERMANY, Langenselbold
D. A. Stuart Oil GmbH
ITALY, Milan
Stuart Oil Italiana S.p.A.
JAPAN, Tokyo
Takata & Co. Ltd.
SOUTH AFRICA
Lasatech (Proprietary) Ltd.
Johannesburg
SWEDEN, Goteborg
D. A. Stuart Oil Nordiska AB

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DISTRIBUTORS

ATLANTA, Ga.
Cowan Supply Company
BIRMINGHAM 2, Ala.
Young & Vann Supply
DENVER, Colo.
Union Supply Co.
GREENVILLE, Miss.
KANSAS CITY, Mo.
Dens-Oil Lubricant Company
MINNEAPOLIS, Minn.
The Satterlee Company
OKLAHOMA CITY, Okla.
Hart Industrial Supply
PORTLAND, Maine
Loren Dyer Co., Inc.
PORTLAND, Oregon
Davis Industrial Products
SAN MATEO, California
Bay City Oil Company
SEATTLE, Washington
Seaport Supply Company
TAMPA, Florida
Tool & Die Supply Company
TULSA, Oklahoma
Krisman Industrial Supply

3

MANUFACTURING

CHICAGO, Illinois
D. A. Stuart Oil Co., Limited
INDIANAPOLIS, Indiana
D. A. Stuart Oil Co., Limited
NORTHVILLE, Michigan
D. A. Stuart Oil Co., Limited
SOMERVILLE, New Jersey
D. A. Stuart Oil Co., Limited
SCARBOROUGH, Ontario, Canada
Canadian D. A. Stuart Oil Co., Limited
ARGENTINA, Buenos Aires
D. A. Stuart Oil Co. (Arg.) S.A.I.C.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co., Limited
GERMANY, Langenselbold
D. A. Stuart Oil GmbH

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WAREHOUSES

DALLAS, Texas
Blue Chip Delivery, Inc.
DAYTON, Ohio
Lewis & Michael Inc.
HOUSTON, Texas
Palmer Whse. & Trans. Co.
INDIANAPOLIS, Indiana
Merchandise Warehouse Company
SYRACUSE, New York
Robert M. Haley Warehouse

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BLENDING & SERVICE CENTRES

BROOK PARK, Ohio
CHICAGO, Illinois
INDIANAPOLIS, Indiana
LIVONIA, Michigan
LOS ANGELES, California
NORTHVILLE, Michigan
SOMERVILLE, New Jersey
SOUTH WINDSOR, Connecticut



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EUROPEAN DISTRIBUTORS

AUSTRIA, Vienna
A. Johnson & Co.
BELGIUM, Brussels
Ets. Marcel Ponjaert S.P.R.L.
FINLAND, Helsinki
Oy Teknoma, AB
FRANCE, Paris
A. Johnson & Cie
ITALY, Milan
Stuart Oil Italiana S.p.A.
NORWAY
Avimar A/S
PORTUGAL, Lisbon
SIOL
SPAIN, Madrid
MecanOil, S.A.
SWEDEN, Goteborg
D. A. Stuart Oil Nordiska AB
SWITZERLAND, Bern
Milloil AG
YUGOSLAVIA, Krusevac
Fabrica Ulja i Maziva



